Q. Do you agree with Mr. Palmer that the past prices or pricing structure of switching elements are irrelevant to the TELRIC and forward-looking cost analysis (AI Ex. 2.1, p23-p24)?

A. Yes. While past prices or pricing structure are reflected in embedded costs, they are irrelevant to any forward-looking cost concepts. By definition, TELRIC is the total costs of the switching element when current market prices are applied to the network structure. It is totally independent of the past prices or pricing structure. This remains true regardless of whether the vendors use (or used) one-tiered or two-tiered pricing structure.

Q. Is Dr. Liu's assessment at page 19 that the single price equivalent (SPE) is not a valid substitute for a single market price because only one of multiple, seemingly equivalent, sets of prices was chosen for the terms of the contracts valid?

A. No. An underlying assumption of ARPSM is that the SPE is the price that the vendor would expect to extract for each line, for example, had the contract been negotiated with a single price for both replacement and growth lines. Dr. Liu is correct in asserting that there are many permutations within the two-tiered pricing structure that yield the same SPE. The vendors are indifferent to any of these permutations, as they will all yield the same SPE. The fact that the vendor agreed to one of these many permutations does not invalidate the fact that the SPE is the average price that the vendor expects for each line. An example from the restaurant industry helps to illustrate this point.

Take for example a hypothetical pizza parlor that sells only plain cheese pizza by the slice. The parlor wants to charge on average $1.50 for each slice of pizza. To achieve this goal, the parlor considers many alternatives. The parlor can price each slice at $1.50 (a single-tiered pricing strategy), or the parlor can sell each slice for $3.00 and institute a "buy-one get-one free" policy (a two-tiered pricing strategy). In both of these scenarios, the parlor has priced the pizza to sell for $1.50 per slice, the market price. However, these are not the only two available options. The parlor can price each slice at $4.50 and institute a "buy-one get-two free" policy (another two-tiered pricing strategy). The parlor conducts studies to determine which pricing strategy will maximize the number of slices sold and decides to adopt the "buy-one get-one free" pricing structure. The SPE of the slice of pizza will be the same $1.50. It is irrelevant that there are other two-tiered pricing structures that the parlor did not choose; the SPE is the market price.

Q. At pages 25 through 28, Dr. Liu recalculates ARPSM line, trunk, CCS, and RTU prices based on her misguided mix of replacement and growth lines. She then recalculates the proposed port charges assuming a [redacted] shared and common cost loading. Putting aside the incorrect replacement and growth line weighting, has she performed these calculations correctly?

A. It is difficult to say, since Dr. Liu's workpapers provided in support of her calculations are incomplete, use undefined terms, and appear to be unnecessarily complicated, especially in view of the lack of verbal explanation of the calculations. Dr. Liu attempts to estimate the number of embedded "growth" and "replacement" lines in the network today using a mathematical model of how digital technology has grown in (has "diffused throughout") the network over recent history. When asked in discovery to provide her analysis, however, she only provided her mathematical formulation, the numerical results of which are driven by the parameter assumptions she used. She never provided any support, workpapers, or reasoning behind the numerical values for the parameters she inserted in her calculations. Using different parameter values would, presumably, have resulted in significantly different results. Hence, even if the conceptual basis of her analysis were sound (which it is not, for reasons I have already explained), her failure to provide proper support upon request makes it impossible to respond to or evaluate the reasonableness of her results.

In addition, the shared and common factor of [redacted] should not be used in this case for the reasons I discuss in response to Ms. Marshall's rebuttal testimony.

Q. Have you reviewed the section of Dr. Liu's rebuttal testimony that deals with CCS-related investment?

A. Yes, I have.

Q. Do you have any general comments that respond to this section of her testimony?

A. Yes, I do. Dr. Liu correctly acknowledges that Ameritech Illinois incurs CCS or usage related costs. I agree with Dr. Liu on this issue. However, Dr. Liu and I apparently do not agree on the amount of CCS or usage related costs that

Ameritech Illinois incurs. We also do not agree on how those costs should be recovered. The next section of my surrebuttal to Dr. Liu will address these two issues.

Q. At pages 29 and 30, Dr. Liu discusses the concern you expressed in your rebuttal testimony regarding flat rate structures leading to potential cross-subsidization. She concludes that your claim "that an average ULS port has more usage than an average non-ULS port does" has not been supported. Please respond to Dr. Liu.

A. Dr. Liu is mischaracterizing my rebuttal testimony. That is, I was not restricting my discussion to usage levels on ULS ports vs. usage levels on non-ULS ports. What I was saying is that, in general, under flat rate schemes designed to recover usage-sensitive costs, ports with usage below the average assumed in the flat rate will be subsidizing ports with usage above the assumed average. That is, in addition to the potential for a non-ULS port subsidizing a ULS port under a flat rate scheme, there is also the potential for a low usage ULS port purchased by CLEC A to provide a subsidy to a high usage port purchased by CLEC B. As Dr. Liu correctly observes, only if the usage patterns for all ports subject to the flat rate scheme are statistically identical are cross subsidy related problems eliminated. However, it should be intuitively obvious that the usage characteristics of customers who use ports are not statistically identical. I am convinced that my neighbor whom I have never seen in her backyard without her cordless phone generates significantly more usage through her port than I do through mine. On the other hand, the neighbors on the other side are rarely home, and I am equally certain they generate significantly less usage than the Palmer household. In short, I do not think it should be necessary or required to statistically demonstrate that usage across ports is not identical. Simple observation and common sense should provide all the evidence needed to conclude that some ports are used more than others, and usage across all ports is not statistically identical.

Q. Assuming usage across ports is not statistically identical, are there reasonable ways to recover usage-sensitive costs?

A. Yes, there are. In fact, Dr. Liu discusses two possible approaches to the problem at page 31 of her rebuttal testimony. Specifically:

> There are two possible approaches to the problem. The first is the "*average cost*" approach: it assesses a single rate (e.g., $0.002) on every minute of usage regardless whether it is peak time or off-peak time usage. The second is a "multi-tiered" flat rate scheme ("three-tiered", for example). For a "three-tiered" flat rate scheme, one first has to divide the ports into three groups:
>
> Group 1: ports with high usage,
> Group 2: ports with medium usage,
> Group 3: ports with low usage.

Q. Do you have any comments regarding these two possible approaches?

A. Yes, I do. The first approach is consistent in concept with the preferred alternative recommended by Ameritech Illinois. The second approach discussed above, or the "multi-tiered" flat rate scheme, while an improvement over a "single tier scheme" is still problematic.

Q. Please explain the inherent problems of the second approach.

A. First, it is probable that the individual ports within each group would have different usage characteristics, leading to potential subsidies within the respective groups. Second, such a scheme would be difficult to implement. For example, assuming ports with low usage would be priced lower than high usage ports, customers would be incented to order the low usage ports. From a product management standpoint, the issue of policing the usage on ports to ensure the correct rate is applied would be, indeed, problematic. At the time a CLEC orders a port, it would be difficult to know if the port will be high usage, or low usage. This would be the case for migrations and new service, since the CLEC would not necessarily know the actual traffic being generated on a prospective customer's line. From an operational standpoint, the CLECs issue orders specifying the port they would like provisioned. Separate ordering codes would be required for both the high and the low usage port products, should such products be developed. Under current ordering guidelines, it would be the CLEC's responsibility to monitor and adjust the port order to reflect the appropriate usage level. No economic incentive or regulatory remedy is envisioned as a part of Dr. Liu's testimony that would ensure the CLEC has ordered the correct port, as Ameritech would not be authorized to modify port products that have been ordered by the CLEC. Any initiative that would automatically track port usage and adjust the price automatically is not readily available within the Ameritech billing platform, and the development of such a program would face significant challenges from both an operational and industry standards perspective. I do not think it would be practical or desirable to put a "cap" or a limit on the usage of each group, whereby calls are blocked once the cap is exceeded. I suppose other variations on this scheme are possible, but I believe the "average cost" approach discussed by Dr. Liu and recommended as Ameritech Illinois' preferred alternative is superior because it best matches cost recovery with the way costs are incurred, and is relatively easy and inexpensive to implement.

Q. What is Staff recommending with respect to CCS related costs and their recovery?

A. At page 28 of her revised rebuttal testimony, Dr. Liu identifies a port charge of [redacted] for a port that includes CCS. Page 12 of Mr. Graves' revised rebuttal testimony however, contains a table displaying Staff's rate recommendations that shows a Basic Port rate of [redacted] as well as a Local Switching Usage per MOU rate of [redacted]. I should also note that none of the "break-even" analyses discussed by Staff witness Buckley used the rates Staff is apparently recommending. In any event, assuming the rates shown in Mr. Graves' revised rebuttal testimony are the rates Staff means to recommend, Staff's recommendation reflects some major problems.

Q. What do you believe are the major problems with Staff's recommendation?

A. First, as discussed previously, the per port costs calculated by Dr. Liu are understated because they are based on an inappropriate weighting of replacement and growth lines. Second, the shared and common cost factor used by Dr. Liu is also too low for the reasons I discuss in response to Ms. Marshall's testimony. Third, including CCS usage related costs in the flat per port price is inconsistent with the principles of cost causation. As Dr. Liu observes at page 35 of her testimony, "[c]ost causation principles would require that cost allocation of CCS investment be based on each port/user's 'contribution' to the total CCS requirement of the switch." The best way to determine each customer's "fair share" of CCS usage costs is to determine the cost of each minute-of-use at the appropriate CCS level and charge customers for each minute they use.

Q. Has Ameritech Illinois submitted such a proposal in this proceeding?

A. Yes, it has. Ameritech Illinois' preferred option consists of two rate elements—a flat rate per port charge to recover the non-usage-sensitive costs of the line port, and a local switching usage rate to recover the CCS or usage related portion of the port costs.

Q. What does Dr. Liu conclude with respect to Ameritech Illinois' preferred option?

A. Dr. Liu concludes at page 37 of her testimony that Ameritech Illinois' proposed per minute-of-use charge for ULS does not comply with the Commission's Order in Docket 96-0486 and, therefore, should not be adopted.

Q. Do you have a response to Dr. Liu?

A. Yes. For the reasons discussed in my rebuttal testimony, I disagree. Specifically, I believe this is a different proceeding: the cost studies used in Docket 96-0486 were prepared almost 5 years ago and did not separately identify port and usage investments based on the current contracts. I also believe the Commission is free to review prior decisions as the industry changes and new information becomes available. I believe the information provided in this proceeding supports the establishment of a usage rate component for ULS.

Q. Dr. Liu also suggests in her rebuttal testimony that Ameritech erroneously left out 19,553,000 access lines in its calculation of revenue ready (RR) fees. Is Dr. Liu's assertion correct?

A. No. Dr. Liu incorrectly attempts to apply a TELRIC methodology to calculating RR fees in ARPSM, although she testifies that ARPSM is not a TELRIC model. The purpose of ARPSM is to provide investment inputs to a TELRIC model. In calculating RR fees, ARPSM determines average RR fees based on the contract lines determined as discussed previously. These fees are then applied to all network lines in a TELRIC study. ARPSM, which calculates forward-looking prices, correctly excludes fees related to the embedded lines. By including the

19,553,000 lines in ARPSM's calculation of RR fees, Dr. Liu mistakenly mixes methodologies.

VI. RESPONSE TO MS. BUCKLEY

Q. What issues does Ms. Buckley's rebuttal testimony address?

A. Ms. Buckley's rebuttal testimony addresses the revised ULS-ST alternative cost studies filed by Ameritech Illinois with its rebuttal testimony. She also presents a "break-even" analysis of the alternatives proposed by Ameritech Illinois and the interim $5.01 basic port flat rate. Finally, she critiques the non-recurring cost study of Custom Routing of Operator Services (OS) or Directory Assistance (DA) via the Advanced Intelligent Network (AIN) for ULS-ST.

Q. At pages 2 through 5 of her rebuttal testimony, Ms. Buckley summarizes the results of the revised cost studies submitted with Ameritech Illinois' rebuttal testimony. Has she accurately summarized these studies?

A. No. Three errors have been identified. At page 2 of her rebuttal testimony, Ms. Buckley incorrectly states that the impact of Ameritech Illinois' cost study revisions on End Office Trunk Termination investment per trunk costs was an increase from [redacted]. This should be a reduction in investment per trunk of [redacted]

[redacted]. It appears that she erroneously compared the trunk investment (per line) to the trunk investment (per trunk) output.

The second error is at page 4, line 71 of Ms. Buckley's rebuttal testimony. Ameritech Illinois' proposed rates for the Unbundled Local Switching-Basic Port and Local Switching Usage per MOU rate elements are [redacted], respectively. It appears that Ms. Buckley incorrectly referenced the TELRIC cost column associated with Local Switching Usage per MOU rather than the Total Cost (or Rate) column in Ameritech-Illinois Ex. 2.1, Schedule WCP-6R and therefore did not include the appropriate shared and common cost loading.

Finally, Ms. Buckley is careless in her use of the terms "cost" and "charge." At page 4, where she summarizes Ameritech Illinois' proposed charges (prices), she states that the proposed alternative 1 usage charge is [redacted], when actually this is the TELRIC (cost), before the addition of shared and common costs to develop the charge. The other charges that she summarizes on that page are correct. In her discussion of the OS/DA Routing costs starting at page 8, she often uses the term "charge" when she is actually discussing costs. For example, she describes her recommended non-recurring cost (which I will discuss below) at page 13 as a non-recurring charge. Her recommended cost clearly does not include any shared and common cost loading, since she defers any discussion of the appropriate shared and common cost factor to Ms. Marshall at page 13.

Q. Beginning at page 5 and ending at page 7 of her rebuttal testimony, Ms. Buckley describes a "break-even" analysis of the alternatives presented by Ameritech Illinois and the interim Basic Port flat rate. Do you have a response to the break-even analysis presented by Ms. Buckley?

A. Yes, I do. First, at a conceptual level, the break-even analysis is inconsistent with the principles of cost causation articulated in the Illinois Cost of Service Rule (the Rule). Section 791.40(c)(3) requires that volume-sensitive costs shall be directly attributed to the service that causes the costs. The first alternative presented by Ameritech Illinois, consistent with the principle of cost causation, identifies the cost incurred for each minute of use generated by ULS-ST customers. Alternative 1 is thus Ameritech Illinois' preferred alternative. Alternative 2 presented by Ameritech Illinois was developed only in response to Dr. Ankum's greatly understated flat rate port proposal as well as in response to those Staff members and intervenors who continue to insist that the Commission's 1996 order in Docket 96-0486 requires the permanent implementation of a flat rate port charge (with the exception of a minimal usage charge).

Ms. Buckley's break-even analysis completely ignores the principle of cost causation. It only evaluates the alternatives in terms of which option is more economical, or cheaper, for the purchaser. In short, she determines that alternative 1 will only "benefit," or be cheaper for, a narrow range of low usage customers, and alternative 2 will benefit, or be cheaper for, "large users," without any regard to the relative costs both groups cause. Her analysis is the same as saying that, if a car costs $10,000 to manufacture, an alternative that would allow a customer to purchase the car for $8,000 is preferable to an alternative that prices the car at $12,000. Although this approach might "benefit" buyers of autos in the short run since they obtain cars for less than cost, in the long run there is no benefit because car companies cannot be expected or required to provide cars to customers at below-cost prices. Eventually, customer alternatives are reduced as manufacturers leave the business and capital is diverted to markets where the potential for profit exists.

Q. Is there another way to interpret the results of Staff's break-even analysis?

A. Yes, there is. After correcting Staff's break-even comparison of alternative 1 and 2 (which I discuss below), the results would indicate that, according to Ms. Buckley's logic, under alternative 2 all customers with usage of less than 1,517.42 minutes of use per month would be paying too much for ULS. According to Mr. Gillan's rebuttal, 1,517.42 minutes of-use per month is almost twice the average line usage. This means that, contrary to Ms. Buckley's assertion, Alternative 2 only benefits the very highest usage customers, and forces the vast majority of lines to pay more costs than they cause to be incurred.

Q. Have you provided a corrected break-even analysis?

A. Yes, I have. Schedule WCP-2S attached to my surrebuttal testimony contains the support for the corrected break-even figures discussed above.

Q. With respect to the custom routing of OS/DA via AIN cost study, Ms. Buckley states, "It is an extremely subjective cost study, primarily because the Company supported the cost study based on estimates of estimates" (page 8). Do you agree with Ms. Buckley's statement?

A. No. First, Ms. Buckley does not specify what in the cost study she claims is being based on "estimates of estimates." Second, Ms. Buckley does not specify on what she bases her conclusion. The cost study does contain some estimates that are based on a subject matter expert's (SME's) direct experience. I will discuss this aspect of the study as it relates to the development cost for custom routing.

Q. Ms. Buckley states, "[I]t would take one experienced technician one hour of labor to connect and only 45 minutes to disconnect according to Ameritech Illinois' cost study" (page 8). Please comment.

A. Ms. Buckley seems to have misread the disconnect labor time, which is actually 30 minutes, as filed in the cost study.

Q. Ms. Buckley says that the Company should not include the custom routing disconnection fee in the non-recurring charge because "[i]t is a future event that should not be applied at the time service is connected," and that "[i]t is unreasonable to assess charges for future activities with unknown dates of occurrences" (page 11). Please respond.

A. First, it is reasonable to assume that a customer will cancel a service at some point in the future. It is impractical to assess a charge at the time of cancellation; it is unlikely the disconnecting customer would pay for the disconnect of the service at the time of disconnection. Moreover, there would be additional costs to modify the billing system. It is a long-standing practice in Ameritech Illinois' non-recurring cost studies to recover disconnect costs in the initial non-recurring charges. Most, if not all, of Ameritech Illinois' non-recurring cost studies include the cost of disconnection along with the cost of connection in the non-recurring cost. I am not aware that this Commission has ever had a problem with this practice before. I would also note that Ms. Buckley has not recommended any alternative method to recover this cost.

Q. Regarding the custom routing development cost, Ms. Buckley refers to an Ameritech SME's email in which the SME estimates such cost. Ms. Buckley states, "In my opinion, statements in this internal e-mail are not sufficient support for AIN development cost" (page 9). Do you agree with Ms. Buckley?

A. No. First, Ameritech Illinois' SME has over 20 years experience with the Company, of which the past 7 or so years have been spent in her current capacity, relating to AIN services. Therefore, she is extremely familiar with the AIN service development process. According to the SME, a simple AIN service would take little effort to provision. However, OS/DA adds a process that entails developing the logic, tables, and associated routing information for custom routing. Thus, OS/DA adds a high degree of complexity to the development process.

Q. Ms. Buckley believes that the source for developing the OS/DA development cost appears unreliable and unreasonable, and thus [redacted] percent of the AIN service logic development cost should not be recovered via the development cost (page 10). Do you agree with Ms. Buckley?

A. No, I disagree for two reasons. First, Ms. Buckley's self-set standard for reliability is unsupported. Ms. Buckley bases her conclusion on a standard of "verifiability" that Ms. Buckley seems to pull out of thin air. Specifically, Ms. Buckley states, "One leader's estimation on a given subject can be reliable if coupled with a verifiable source at the working level. This was not shown, therefore the estimation provided in this cost study is flawed" (page 10). Ms. Buckley provides no basis for her new standard. Ms. Buckley offers no alternative study or analysis of her own. It has been long recognized that, in the absence of actual data, cost studies can rely on subject matter experts' estimates. For example, the Illinois Commission's TELRIC Order, issued February 17, 1998 in Docket Nos. 96-0486/96-0569, specifically states, "Alternatively, at Ameritech Illinois' option, an approach could be used which relies on estimates of subject matter experts."

Second, Ms. Buckley assumes that budget savings should have been captured in the cost study. Ms. Buckley states, "Based on the budget savings, I believe that actual costs could be less than estimated cost" (page 10). There is no indication that the budget savings discussed by Ms. Buckley were related to the OS/DA routing project and no indication of the percentage that the dollar savings represented.

Q. Because Ms. Buckley believes that the estimate provided by the Company is not based on verifiable and sustainable data, Ms. Buckley recommends that the development cost for service logic be adjusted downward to [redacted] (page 11). Do you agree?

A. No. As I explained above, the cost estimates are based on experienced Ameritech personnel with direct experience in this area. It is ironic that Ms. Buckley finds Ameritech's subject matter expert's input as insufficient evidence to support the development cost estimate, while, at the same time, Ms. Buckley herself provides no support whatsoever for her *downward* adjustment of service logic cost to [redacted] other than to say, "It is not unusual, in my opinion, for cost estimates to be off by as much as ten percent" (page 11).

Q. Ms. Buckley recommends that "the adjusted development cost be allocated among all existing central offices in all 5 States [...]" (pages 11-12). How do you respond?

A. First, as I have responded above, Ms. Buckley provides no basis for her adjusted development cost, and thus it is an arbitrary adjustment. Second, Ms. Buckley seems to base her recommendation to allocate this cost across 5 states on a response to Staff data request KYB-1.04 in which I state that "the development *cost is shared by all 5 Ameritech states* [...]" (Buckley Surrebuttal Attachment 3). What this statement means is that in all 5 states the cost is developed by dividing the total regional development cost by the total regional demand. The fact that all of the expected regional demand comes from 3 states is immaterial. This is no different than basing the cost for a service offered throughout the state of Illinois on a demand forecast that is expected to come entirely from the Chicago Loop because no customers are expected in other parts of the state. Adding downstate demand that is not expected to materialize to the forecast, thereby lowering the unit cost, would result in underrecovery of the total cost, just as Ms. Buckley's proposed addition of demand in states where none is expected to materialize would result in underrecovery of the development costs.

In addition, a former Product Manager responsible for Customized Routing at the time this cost study was completed said the demand forecast was based on the following information:

- It only included states where there was known interest in this service: Illinois, Michigan, and Ohio. This is the reason why only [redacted] central offices were considered.

- The forecast included two companies that have shown interest [redacted] in Customized Routing for OS/DA and one additional company over the product's life cycle.

This information was reflected in the cost study.

Finally, in addition to being conceptually incorrect, Ms. Buckley's adjustment to demand makes no numerical sense. [redacted]

Q. Have you had an opportunity to review any of Ms. Buckley's workpapers supporting her rebuttal testimony in this proceeding?

A. Yes. Unfortunately Ameritech Illinois has only received a very limited submission from Staff as of this date in response to Ameritech Illinois' First Set of Data Requests to Staff. In addition, although Staff witnesses Liu and Graves again submitted revised rebuttal testimony on May 31, 2001, the workpapers that have been received from Ms. Buckley do not incorporate all of the recent revisions made by Dr. Liu.

Q. Do you have any comments on the workpapers that you have received from Ms. Buckley?

A. Yes, I do. First, Ms. Buckley provided no workpapers supporting the break-even analysis that is referred to in her rebuttal testimony. Nor were any workpapers provided that support Ms. Buckley's proposed modifications to Ameritech Illinois' Custom Routing of OS or DA cost study. The workpapers that were received from Ms. Buckley merely reflect what appears to be Ms. Buckley's replication of Ameritech Illinois' resource cost calculations and the associated calculations for ULS-ST Blended Transport Usage, ULS-ST Common Transport, and ULS-ST Tandem Switching. Ms. Buckley's worksheets also include some calculations that apparently were intended to support Staff's proposed rates for ULS-ST rate elements as reflected at page 12 of Mr. Graves' rebuttal testimony.

Q. **Have you uncovered any problems during your review of Ms. Buckley's workpapers?**

A. Yes, I have. Ms. Buckley was apparently responsible for incorporating investment modifications proposed by Dr. Liu as well as Ms. Marshall's proposed shared and common loading, and then translating those inputs into Staff's proposed rates for ULS-ST rate elements that are ultimately incorporated into Mr. Graves' rebuttal testimony. However, several errors have been identified in Ms. Buckley's "pricing" workpapers. First, the Shared Factor Ms. Buckley reflects in her workpapers is not consistent with the shared cost loading proposals presented by Staff witness Marshall. For example, the Staff's proposed shared cost value shown in Staff Ex. 6.0, Schedule 1, page 3 of 3, is [redacted]. However, Ms. Buckley's workpapers reflect a Shared Factor value of [redacted].

Second, Ms. Buckley's workpapers contain a spreadsheet error resulting in Staff's proposed Common Cost Factor being loaded twice rather than loading Staff's proposed Shared Factor and then Common Factor.

Finally, Ms. Buckley's application of the shared and common cost factors to TELRIC costs is inconsistent with the way these factors were developed by Ms. Marshall (i.e., *rolling denominator application*). Ms. Marshall's Schedule 1 reflects development of her shared and common cost factors on a "rolling denominator" basis. This concept can be explained using the following example:

Assume:

\$10	TELRIC Base
\$ 1	Product Support Expense (PS)
\$ 1	Network Support Expense (NS)
\$ 1	General Support Expense (GS)
\$ 1	Corporate Overhead Expense (CO)

Factor Development:

PS Factor	PS/TELRIC or \$1/\$10 = 0.10
NS Factor	NS/(TELRIC+PS) or \$1/\$11 = 0.0909
GS Factor	GS/(TELRIC+PS+NS) or \$1/\$12 = .0833
CO Factor	CO/(TELRIC+PS+NS+GS) or \$1/\$13 = .0769

For both shared cost and common costs, Ms. Buckley's workpapers reflect an application of both factors against the TELRIC values only, rather than an application of the common factor to TELRIC plus shared.

Q. What are your recommendations to this Commission based on your review of the support provided by Ms. Buckley?

A. I recommend that the Commission disregard the proposals presented by Staff as they are speculative, unsupported, and based upon inconsistent and erroneous calculations.

VII. RESPONSE TO MS. MARSHALL

Q. At page 3, lines 49 through 62 of her rebuttal testimony, Ms. Marshall claims that Ameritech Illinois has not provided any support for the shared and common costs factor used in this case, and that, absent that support, a shared and common cost loading of less than 29% is warranted. Please respond.

A. Ms. Marshall has apparently not reviewed the record compiled in the Illinois TELRIC Compliance docket, I.C.C. Docket No. 98-0396, and specifically referenced at page 55 of my rebuttal testimony (Ameritech Illinois Ex. 2.1 (Palmer)). Had Ms. Marshall done so, she would have obtained literally hundreds of pages of documentation providing the support she had requested.

Q. Page 4 of Ms. Marshall's rebuttal testimony contains proprietary data from the Michigan and Indiana TELRIC investigations in support of her contention that Ameritech Illinois' proposed shared and common cost loading is overstated. She further implies that these particular values represent results from "recent" investigations. Please respond.

A. Ms. Marshall's comments are misleading and do not tell the whole story.

The shared and common cost loadings cited by Ms. Marshall resulted from comprehensive TELRIC investigations in those particular state jurisdictions conducted during the 1997/1998 timeframe. The Shared and Common cost studies that were presented and investigated in those proceedings were based on the same Arthur Andersen Shared and Common Cost model—reflecting 1997 budget data—that was ultimately adopted with modifications in the Illinois Commission's TELRIC Order (I.C.C. Docket No. 96-0486, Order dated 2/17/98). Each Commission's shared and common determination in those particular proceedings was based upon the specific record compiled and each Commission's particular regulatory policy objectives at that time. Contrary to Ms. Marshall's implication, they do not reflect updated shared and common cost studies containing more recent data.

Ms. Marshall has also highlighted the lowest shared and common cost factor determinations. The Ohio Commission's TELRIC investigation resulted in an average shared and common loading factor of [redacted], which is in line with the Illinois result presented for use in this proceeding.

Ms. Marshall has also not addressed the comparability of the proposed Shared and Common loading factor of [redacted] that is currently under review in the Wisconsin TELRIC investigation.

In any event, comparisons to other jurisdictional results are largely irrelevant in this proceeding. The average shared and common cost loading of [redacted]

[redacted] to be applied to the ULS-ST TELRIC costs under investigation in this proceeding is based upon the record from the Illinois Commission's own comprehensive TELRIC investigation. Ms. Marshall has provided no compelling reason for re-opening and re-litigating shared and common cost factors in this particular docket.

Q. **At page 4, lines 83 through 89 of her rebuttal testimony, Ms. Marshall compares Ameritech Illinois' TELRIC-related average shared and common cost factor with the shared and common factor resulting from this Commission's access charge investigation (I.C.C. Docket No. 97-0601/0602). Is this result relevant for a TELRIC-related pricing determination?**

A. No it is not. The only aspects of the shared and common cost study presented in the Illinois Access Charge investigation that are comparable to the study submitted in the Illinois TELRIC investigation are (1) the studies were based on the Arthur Andersen Shared and Common Cost model and (2) the cost studies reflect the same vintage of data. That is where the comparisons end. What Ms. Marshall does not discuss is that the access charge study addressed costs associated with a separate and unique Ameritech business unit, i.e., Ameritech Long Distance Industry Services (ALDIS), which is responsible for sales, marketing, and servicing of access-related products to IXC customers. In contrast, the Illinois TELRIC-related shared and common cost study addressed costs associated with providing UNEs to a totally different wholesale customer base served by the Ameritech Information Industry Services (AIIS) business unit[2]. In addition, the underlying LRSIC cost studies for access services reflect a different set of cost inputs from those mandated for TELRIC cost studies. An example of these differences is the Cost of Money assumption. In LRSIC cost studies, a weighted average cost of capital of 10.6% is utilized; whereas, the Commission has ordered a weighted average cost of capital of 9.52% for TELRIC cost studies. Since LRSIC/TELRIC values form the denominator for shared and common cost determination, this input variance drives a variance in the shared and common factor result. Since these are separate and distinct cost studies with unique sets of input assumptions, the comparison is of no consequence and should be disregarded.

Q. At pages 5 through 8 of her rebuttal testimony as well as at pages 7 through 9 of her direct testimony, Ms. Marshall has delineated several concerns/criticisms of Ameritech's 1998 Shared and Common Cost model. Has the model to which Ms. Marshall refers been introduced in this proceeding?

A. No it has not. As indicated at pages 52 through 54 of my rebuttal testimony, it is Ameritech Illinois' position that the current proceeding does not represent an appropriate forum for a comprehensive investigation of Ameritech Illinois' updated shared and common cost study. Rather, Ameritech Illinois is proposing to apply the average shared and common cost loading resulting from the

[2] ALDIS and AIIS were separate business units at the time the Arthur Andersen study was completed. However, they have since been merged.

implementation of the Illinois Commission's February 1998 TELRIC Order.

Q. Has Ameritech Illinois filed updated shared and common costs in any other Illinois proceeding?

A. Yes. As indicated in my rebuttal testimony, Ameritech Illinois filed updated shared and common cost studies in compliance with the Commission's directive in the SBC/AIT Merger docket (I.C.C. Docket No. 98-0555) in April 2000. In fact, Ameritech Illinois filed two updated shared and common cost studies—one applicable to TELRIC-related products and services and the other applicable to LRSIC-based retail and/or access-related products or services. The preparation of two independent shared and common cost studies was required due to the differing sets of cost study input assumptions (cost of money, lives, and fills) applicable to these two groups of service offerings, as previously noted during my discussion of the Illinois access charge investigation.

Q. Was Staff provided with informational copies of the updated cost studies filed in compliance with the Commission's Merger Order?

A. Based on conversations I had with Ameritech cost personnel, Ameritech Illinois provided Staff with courtesy copies of all updated TELRIC cost studies filed in compliance with the Merger Order in April 2000, including both iterations of the 1998 Shared and Common Cost studies and all supporting documentation.

Q. Have these updated shared and common cost studies been filed in any other Illinois proceeding?

A. Yes. The 1998 Shared and Common cost study for retail and access-related products and services was filed in I.C.C. Docket No. 98-0252, Illinois Alternative Regulation/Rate Rebalancing investigation, in the July 2000 timeframe.

Q. Since Ms. Marshall has specifically referred to her review of Ameritech Illinois' July 2000 filing, is she addressing the appropriate shared and common cost study?

A. No, she is not. The materials she refers to were filed on a confidential and proprietary basis in an unrelated docket and should not be used to override this Commission's prior TELRIC-related shared and common cost factor decision.

Q. Ms. Marshall delineated several concerns she had with the Shared and Common Cost Model and its associated supporting documentation in her direct testimony (pages 7 through 9 of Staff Exhibit 2.0) as well as in her rebuttal testimony (pages 5 through 7 of Staff Ex. 6.0). Has Ms. Marshall or any member of the Commission Staff formally requested supplemental information and/or initiated direct contact with the model developers to resolve these issues?

A. Based upon my conversations with Ameritech Illinois' Regulatory personnel and my direct involvement in preparing responses to numerous data requests, there has been no request from Staff, despite its extensive use of the discovery process, specifically addressing Ameritech Illinois' 1998 Shared and Common Cost Model, its input assumptions, supporting documentation, or operational concerns.

Nor were there any data requests from Staff requesting assistance in developing sensitivity analyses.

Q. At pages 7 through 9 of her rebuttal testimony, Ms. Marshall discusses the development of Staff's proposed Shared and Common Cost factor of 24.29%. Does the current record support Staff's proposed factor?

A. No. First, the 1998 Shared and Common Cost Model cited by Ms. Marshall as the starting point for Staff's shared and common cost factor development is not in the record in this case. Ameritech Illinois has not introduced it, nor has Staff. Therefore, the model itself has not been given an objective and thorough review. Second, based upon our review of Ms. Marshall's workpapers provided during discovery, the Shared and Common Cost Model Ms. Marshall apparently relied upon for her calculations is not the appropriate starting point, as I discuss later in my surrebuttal.

Q. Ms. Marshall has proposed to further revise the referenced Shared and Common Cost Model to reflect "current estimates of net merger related savings" (page 8, lines 170 – 171). Has there been any independent data provided for the record that supports Staff's estimates of net merger savings?

A. No. How those values were determined is left to one's imagination, and Ms. Marshall's incomplete response to Ameritech Illinois' data request provided no clarification.

Q. Are you aware of any proceeding in which the Commission has established a going-forward level of net merger-related cost savings?

A. No, I am not. I have, however, had discussions with Ameritech Illinois personnel who have indicated that net merger savings are in the process of being audited at this time, and that nothing has been decided relative to on-going net merger savings projections. It is Ameritech Illinois' position that the going-forward level of net merger savings is contingent upon completion of the audit process, which, as stated, is being addressed in other proceedings. I have also been advised that Ms. Marshall has introduced the issue of estimated merger savings in Ameritech Illinois' annual price cap filing in I.C.C. Docket No. 01-0302. The going-forward level of merger-related savings is, therefore, a hotly contested issue in other venues. The Commission should not allow Staff at this juncture and in this narrowly focused investigation to circumvent the agreed upon audit process and impose reductions to Ameritech Illinois' TELRIC-related shared and common cost factor, especially in light of the lack of record support for Staff's assumptions.

Q. At pages 9 through 11 of her rebuttal testimony, Ms. Marshall attempts to cast Ameritech Illinois' proposed shared and common loading of [redacted] as non-compliant with the Illinois Commission's TELRIC Order. Please respond.

A. As I have previously testified, the shared and common cost loading that Ameritech Illinois proposes to apply to ULS-ST TELRIC costs represents the average loading resulting from Ameritech Illinois' implementation of the Commission's TELRIC Order in ICC Docket No. 96-0486/0569 (Consol.). These results were fully supported in the Commission's TELRIC Compliance investigation (I.C.C. Docket No. 98-0396). Ms. Marshall now implies that Ameritech Illinois is proposing to use "a single cumulative factor for both shared and common costs loading" (see Staff Ex. 6.0, pg. 9, lines 193-195), which, she claims, is non-compliant with the Commission's TELRIC Order. Ms. Marshall is wrong. As shown in Schedule WCP-6R attached to my rebuttal testimony, the [redacted] average shared and common cost loading is composed of an average shared cost loading of [redacted] and an average common cost loading of [redacted] and is, therefore, in compliance with the Commission's TELRIC Order.

Q. Ms. Marshall also implies that Ameritech Illinois should be required to recalculate its shared and common cost loadings based on updated extended TELRIC calculations each and every time a new UNE is introduced into the mix or existing rate elements are restructured or reconfigured. How do you respond?

A. Ms. Marshall is simply resurrecting an argument originally presented by Staff witness, Mr. Phipps, in the TELRIC Compliance investigation that was appropriately rebutted by Ameritech's witness in that proceeding. Ms. Marshall has not added any additional support for this burdensome proposition in this unrelated docket. As indicated in my rebuttal testimony at page 55, Staff has already gone on the record in the TELRIC Compliance investigation that Ameritech Illinois has developed its shared and common cost loadings in compliance with the Commission's TELRIC Order. Ms. Marshall's reversal of Staff's previously stated position is not supported by the record.

Q. At pages 14 and 15 of her rebuttal testimony, Ms. Marshall has explicitly stated Staff's expectation that any shared and common cost loading determined in the context of the present investigation must extend to all of Ameritech Illinois' unbundled network elements, necessitating re-pricing and re-tariffing of all UNE rate elements. How do you respond to Staff's proposition?

A. As I stated in my rebuttal testimony at page 54, "because an integrated approach to TELRIC cost development and shared and common cost identification is required to ensure appropriate cost recovery on a forward-looking basis, the new Shared and Common cost model is [...] more appropriately addressed in a comprehensive proceeding addressing all of the TELRIC cost studies filed in compliance with the SBC/AIT merger order as opposed to a narrowly focused tariff investigation [...]" (Ameritech Illinois Ex. 2.1, pg. 54).

Q. At page 15 of her rebuttal testimony, Ms. Marshall discounts the need for a comprehensive review of all TELRIC-related cost studies, claiming that those studies "are so dated that they should no longer be considered forward-looking." Please respond.

A. It seems incredible to me that this Commission would first adopt Staff's recommendation in the SBC/AIT merger proceeding requiring Ameritech Illinois to prepare updated cost studies for all of its retail and wholesale products and services in a very abbreviated timeframe, and then subsequently conclude in this proceeding that those updated cost studies are "dated" and "no longer considered forward-looking." It is also troubling that, although Ameritech Illinois' updated Shared and Common Cost models represent the same study period and vintage of inputs, Ms. Marshall apparently advocates the use/application of one of those studies, albeit the incorrect shared and common cost study, but minimizes the relevance of the TELRIC cost studies that were filed at the same time.

It is my understanding that the Staff of the Illinois Commission, as a courtesy, was provided copies of all of the updated cost studies filed by Ameritech Illinois at the time of their filing with the Commission. That was over a year ago for UNE-related product offerings! These are very costly and burdensome requirements for Ameritech Illinois, and it should not be forced to incur costs of this magnitude only to have the work product gather dust at the Commission Staff offices. Ameritech Illinois should not be penalized and forced to incur still more cost to update cost studies, only one year later, due to internal Commission Staff delays in review processes.

Furthermore, Ms. Marshall states at page 15 of her rebuttal testimony:

> In the past, Staff has not devoted the resources to review cost studies outside of a docketed case because we find that we are frequently unable to affect changes in a company's cost studies absent a specific Commission Order. Therefore, Staff

> looks at revised cost studies when they are used in a tariff filing which can result in a specific Commission Order. If the Commission wishes each of Ameritech's cost studies to be reviewed, I recommend that the Order in this docket initiate a proceeding to address all Ameritech revised cost studies.

From this statement, Staff appears to be advocating a policy that the Commission must order an ILEC to file updated tariffs whenever the ILEC is ordered to file updated cost studies. However, Staff's recommendation in this proceeding only requests initiation of "a proceeding to address all Ameritech revised cost studies."

Staff was free to make such a recommendation to the Commission at any time since the Merger Order (98-0555) some twenty months ago. There is nothing unique about the instant docket that presents Staff's first opportunity to make such a recommendation. Ms. Marshall is attempting to expand the scope of this limited proceeding, and her recommendation is misplaced. I find it hard to believe that Staff has waited this long to initiate a review of the updated TELRIC studies filed pursuant to the Merger Order only to now characterize these studies as outdated, and finally recommend a new proceeding.

Q. Have you had an opportunity to review any of the workpapers provided by Ms. Marshall in response to Ameritech Illinois' discovery request?

A. The two workpapers that were provided by Staff witness Marshall in response to Ameritech Illinois' data request do not represent a comprehensive response to Ameritech Illinois' data request; therefore, Ameritech Illinois has been unable to replicate any of Ms. Marshall's computations. We have been unable to track the shared and common factor values attributed to the "AI Study" in Ms. Marshall's

Worksheet 1 back to either of Ameritech Illinois' official merger-related compliance filings of April 2000. We can only speculate that Ms. Marshall may have started her analysis using a "preliminary" version of Ameritech Illinois' shared and common cost model presented to Staff for demonstration purposes only, rather than the finalized version of the model that was officially filed with the Commission and subsequently provided to Staff as a courtesy.

Further, Ms. Marshall has provided no documentation supporting the derivation of either the numerator or denominator values presented in Schedule 2.1 of her rebuttal testimony. Ms. Marshall states at page 8 of her rebuttal testimony that her "Schedule 1, page 1 of 3, corrects only the mathematical errors in Ameritech's study." However, she has provided no workpapers supporting her "corrections," thereby preventing Ameritech Illinois from independently assessing the accuracy of Ms. Marshall's calculations.

In addition, Ms. Marshall provided an additional worksheet entitled "Merger Costs and Savings" containing three columns of data that are mapped to Ameritech's shared and common expense categories. The source for these data has not been identified by Ms. Marshall, nor has Ameritech Illinois been provided with workpapers supporting the actual calculation of these values. Staff's lack of responsiveness to Ameritech Illinois' request for all supporting documentation "that support or were used to compute the rate recommendations" (Ameritech Illinois First Set of Data Requests to Staff) has undermined Ameritech Illinois' ability to adequately respond to Staff's proposals. Therefore, this Commission